



Capital 9 Limited

24 February 2023

*To the Independent Board Committee and the Independent Shareholders of
Enterprise Development Holdings Limited*

Dear Sir/Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARE FOR EVERY TWO (2) EXISTING SHARES
HELD ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, particulars of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company dated 24 February 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement. The Company proposes to raise up to approximately HK\$106.16 million before expenses, or net proceeds of not more than approximately HK\$104.05 million after deducting the underwriting commission, professional fees and all other relevant expenses, by way of the Rights Issue, by issuing up to 124,896,729 Rights Shares (assuming all outstanding Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) at the Subscription Price of HK\$0.85 per Rights Share on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date. The Rights Issue will only be available to the Qualifying Shareholders and will not be available to the Excluded Shareholders on the Record Date.

The Company will arrange for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, if any, to be sold in the market as soon as practicable after the commencement of dealings on the Stock Exchange in Rights Shares in nil-paid form and in any event before the last day for dealing in the nil-paid Rights Shares, if a premium (net of expenses) can be obtained. In the event that and to the extent that such nil-paid Rights Shares can be sold, the Company will then distribute such proceeds in Hong Kong dollars (after deducting the expenses of sale (if any)) to the Excluded Shareholders pro rata (but rounded down to the nearest cent) to their shareholdings on the Record Date, except that individual amount of HK\$100 or less shall not be so distributed but shall be retained for the benefit of the Company. Any such unsold nil-paid Rights Shares to which such Excluded Shareholders would otherwise have been entitled will be made available for excess application by the Qualifying Shareholders under the EAF(s).

On 29 November 2022 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter in relation to the underwriting and respective arrangements in respect of the Rights Issue. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of up to 124,896,729 Rights Shares (assuming all outstanding Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date) subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained in the Underwriting Agreement. Pursuant to the Company's constitutional documents and the Companies Act, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment or satisfaction of the conditions precedent of the Rights Issue, the Rights Issue shall proceed regardless of the conditions of its level of acceptances, and up to 124,896,729 Rights Shares are available to be subscribed subject, however, to any scale-down vis-a-vis the MGO Obligation or the Public Float Requirement. In the event of under-subscription, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, and not subscribed by subscribers procured by the Underwriter will not be issued, and hence, the size of the Rights Issue will be reduced accordingly. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue, will increase the total number of issued Shares by more than 50% within a 12 month period immediately preceding the Latest Practicable Date, the Rights Issue will be subject to the approval by the Independent Shareholders at the EGM by way of poll at which the controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to them on how to vote at the EGM. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give independent opinion to the Independent Board Committee for it to advise the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, among other things, (i) the annual and interim report of the Company for the year ended 31 December 2021 (the “**2021 AR**”) and the six months ended 30 June 2022 (the “**2022 IR**”) respectively; (ii) the Announcement; (iii) the Underwriting Agreement; and (iv) other information contained in the Circular.

We have also relied on (i) the information, facts and representations provided, and the opinions and views expressed, to us by the Company, the Directors and/or the management of the Group, and (ii) the information, facts, representations, opinions and views of the Company, the Directors and/or the management of the Group contained or referred to in the Circular, including but not limited to the Letter from the Board contained therein, all of which have been assumed to be true, accurate and complete at the time they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, view and intention made by the Company, the Directors and/or the management of the Group in the Circular, including but not limited to the Letter from the Board contained therein, were reasonably made after due and careful enquiry and the expectations and intentions made by the Company, the Directors and/or the management of the Group will be met or carried out as the case may be. We consider that we have received and reviewed sufficient information to reach an informed view and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and/or the management of the Group. We have been confirmed by the Company that no material facts have been withheld or omitted from the information provided to us, the opinion expressed to us, and/or information or opinion contained or referred to in the Circular.

The Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We have not, however, carried out any independent verification of the information provided by the Company, the Directors and/or the management of the Group, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or any of its subsidiaries, controlled entities, jointly controlled entities or associates. We consider that we have performed our duties with impartiality and independence from the Company.

As at the Latest Practicable Date, we were not aware of any relationships between us and, nor any interests held by us in, the Company that could reasonably be regarded as hindrance to our independence as defined under the Listing Rules to act as the Independent Financial Adviser. In the past two years preceding the Latest Practicable Date, there was no engagement between the Company and us other than this engagement and we did not have any relationship with or interest in the Company that could reasonably be regarded as relevant to our independence. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company. Accordingly, we are qualified to give independent advice in relation to the Rights Issue.

PRINCIPAL REASONS AND FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, we have taken into consideration the following principal reasons and factors:

(1) Information on the Group

(a) *Historical financial performance*

The Group is principally engaged in (i) the provision of integrated business software solutions and (ii) trading of listed securities.

Set out below are the summarised financial information of the Group for the two years ended 31 December 2020 (“FY2020”) and 2021 (“FY2021”) and the six months ended 30 June 2021 (“1H2021”) and 2022 (“1H2022”), as extracted from the 2021 AR and 2022 IR respectively, and further confirmed by the Company:

	FY2020	FY2021	1H2021	1H2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue, comprising	70,839	40,825	20,739	24,852
(i) Software maintenance and other services	67,897	38,172	14,279	15,513
(ii) Sale of software license and other products	2,633	2,293	6,281	9,339
(iii) Others (money lending and security trading)	309	360	179	–
Gross profit	17,578	16,512	7,107	11,032
Gross profit margin	24.8%	40.4%	34.3%	44.4%
Other income and gains, net	862	5,073	3,045	174
Distribution expenses	(19,486)	(16,710)	(8,954)	(7,130)
General and administrative expenses	(17,305)	(17,870)	(9,937)	(9,026)
Other operating expenses	(7)	(6)	–	–
Fair value (loss) gain on financial assets at fair value through profit or loss (“FVPL”)	3,696	(8,028)	(5,896)	(7,829)
Loss allowance on trade and other receivables, net	(975)	(7,056)	–	–
Impairment on intangible assets	(8,215)	(1,479)	–	–
Loss from operation	(23,852)	(29,564)	(14,635)	(12,779)
Finance costs	(1,223)	(715)	(91)	(395)
Loss before taxation	(25,075)	(30,279)	(14,726)	(13,174)
Income tax (expense) credit	(247)	(455)	227	(114)
Loss for the year/period, attributable to	(25,322)	(30,734)	(14,499)	(13,288)
– Equity shareholders of the Company	(16,833)	(23,820)	(11,974)	(12,892)
– Non-controlling interests	(8,489)	(6,914)	(2,525)	(396)

For FY2021, the Group's revenue amounted to approximately RMB40.8 million, representing a decrease of approximately RMB30.0 million from approximately RMB70.8 million for FY2020. As stated in the 2021 AR, the decrease in overall revenue for the software business was mainly due to outbreak of COVID-19 which has brought a negative impact on overall market sentiment and the Group's financial performance for FY2021. The COVID-19 pandemic has posed significant challenges to the Group's business activities and caused operational delays to some extent. Gross profit of approximately RMB16.5 million was recorded for FY2021, compared to approximately RMB17.6 million for FY2020. Nevertheless, the Group recorded gross profit ratio of approximately 40.4% for FY2021, an improvement compared to that of 24.8% for FY2020, mainly due to the increase in proportion for sale of self-developed products which had higher gross profit margin in FY2021. Loss for the year of approximately RMB30.7 million was recorded for FY2021, compared to loss of approximately RMB25.3 million for FY2020, which was mainly due to recognition of fair value loss on financial assets at FVPL of approximately RMB8.0 million for FY2021, compared to fair value gain of approximately RMB3.7 million for FY2020.

For 1H2022, the Group's revenue amounted to approximately RMB24.9 million, representing an increase of approximately RMB4.2 million from approximately RMB20.7 million for 1H2021. As stated in the 2022 IR, the increase in overall revenue for the software business was mainly driven by the demand from both existing and new customers, and new contracts signed for domestic-produced database software, which was in alignment with the localisation policy for the database software business in the PRC. Gross profit of approximately RMB11.0 million was recorded for 1H2022, compared to approximately RMB7.1 million for 1H2021. Gross profit ratio of approximately 44.4% was recorded for 1H2022, compared to approximately 34.3% for 1H2021. Such increase in gross profit ratio was mainly due to the increase in proportion for self-developed software solution services which had higher gross profit margin for 1H2022. Loss for the period of approximately RMB13.3 million was recorded for 1H2022, compared to loss for the period of approximately RMB14.5 million for 1H2021.

As stated in the 2021 AR and 2022 IR, the Group's working capital was funded by the cash generated from operating and financing activities. As at 30 June 2022, the Group maintained cash and cash equivalents of approximately RMB73.2 million, a substantial drop compared to approximately RMB115.6 million as at 31 December 2021, and of which approximately RMB72.35 million has been earmarked for specific uses and less than RMB1 million was available for use as general working capital by the Company's Hong Kong office as stated in the Letter from the Board. As at 30 June 2022, the Group's current ratio was approximately 5.88 times, compared to approximately 6.77 times as at 31 December 2021. The Group's interest-bearing borrowings increased to approximately RMB13.8 million as at 30 June 2022 from approximately RMB10.1 million as at 31 December 2021.

We understood from the Company that given the challenges to the Group posted by the outbreak of COVID-19 pandemic in last two years, it is crucial for the Group to increase its competitiveness to deal with possible challenges in the future by way of, among others, expansion of customer base. Industrial Parks Software Project is a potential business opportunity identified by the Group which the Group has confidence to develop given its industry experience. After considering the factors above, we concur with the Company's views that it is crucial for the Group to raise funds to seize the opportunity to undertake Industrial Park Software Project after taking into account the financial position of the Group as at 30 June 2022 compared to that as at 30 June 2021 as stated above.

(b) Prospects of the Group

As stated in the 2022 IR, given the outbreak of COVID-19 causing operational delays to the Group's business activities, the Group has tried to maintain its competitiveness through introduction of new products and services, further broadening of client bases and implementation of various cost control policies. The Group has put great effort on the improvement of its profit margin in the software maintenance services and repositioning its products in terms of lowering the cost of sales. In addition, in or around early 2022, the Group commenced implementation of database software localisation which was in line with relevant policy adopted by the PRC Government in light of trade war between the PRC and the United States. For 1H2022, the Group recorded revenue increase of 19.8% with higher gross profit ratio as compared with 1H2021. The Company expects that on a long-term basis, there will be more PRC-based customers switching to the domestic brand when seeking for database software service providers.

Further, as stated in the Letter from the Board, the Company has identified the business opportunities created by the boom of industrial parks and the needs for the implementation or improvement of the information technology infrastructure there. Hence, it has decided to diversify its software business to industrial parks. With more than 20 years' experience in the provision of integrated business software solutions, the Group is confident of its business diversification and the prospects of software business in the PRC.

We have reviewed the research report “2022 Industrial Park Series: China’s Industrial Parks High-quality Development Research” as stated in the Letter from the Board. According to such report, the first batch of state-level economic and technological development zone was established in 1984 and there were over 2,700 state-level and provincial level development zones in the PRC by December 2021. The Company estimated that a number of them have been established for many years and thus the hardware and software systems used by them may probably require update and upgrade. We have discussed with and understood from the Company with respect to how the Group identified such need of the industrial parks. As stated in the Letter from the Board, based on communication with business partners and in-depth discussion with potential industrial park clients, and findings from site visits to understand the situation and needs of those parks, the Group identified that there is a demand for the industrial parks to update and upgrade their system to cater for the rapid growth of technology in the PRC. Taking into account the above, we concur with the Directors’ view that software and hardware systems update and upgrade in those industrial parks is necessary.

In respect of the feasibility and profitability of the Industrial Park Software Project, we have reviewed a proposal prepared by the Group with an analysis demonstrating that the undertaking of the project by the Group is feasible after taking into consideration various factors, in particular, IT infrastructure required to be improved and implemented in the parks, business model, services to be provided by the Group, development schedule, budget, profitability, market and risk analysis. As shown in the analysis, while there will be a cost burden on the Group in the set up and development stage of the projects, a double-digit increase of profit margin during the implementation stage is expected with the receipt of project and periodical fee from the clients by the Group.

Further, according to the statistics released in the website of the relevant PRC authority, the accumulated revenue of completed software service in the PRC amounted to approximately RMB9,499.4 billion in 2021, representing a growth of 17.7% compared to 2020¹. For the first ten months in 2022, the accumulated revenue amounted to RMB8,421.4 billion, representing a 10% growth compared to the same period in 2021².

¹ https://www.miit.gov.cn/gxsj/tjfx/rjy/art/2022/art_7953d1abafe14f00a1b24e693ef73baa.html

² https://www.miit.gov.cn/gxsj/tjfx/rjy/art/2022/art_f8bfc11548324a248e69b25b63020a0c.html

As stated in the Letter from the Board, the Company considered the Industrial Park Software Project an opportunity to the Group to develop its business and broaden its source of income, after into consideration (i) the needs of the industrial parks as supported by the number of potential customers and the possibility of them in entering into agreements with the Group; (ii) the feasibility of the Industrial Park Software Project given the Group's extensive industry experience in the provision of integrated business software solutions and expertise in providing integration services and tailor-made solutions to cater for the needs of different corporate clients in different industries which is applicable to the project; and (iii) the expected profitability of the Industrial Park Software Project. Given the factors discussed above, we concur with the Directors' view that the undertaking of the Industry Park Software Project, being an opportunity to the Group, is in the best interest of the Group.

(2) Reasons for the Rights Issue

The net proceeds from the Rights Issue, after deducting the underwriting commission, professional fees and all other relevant expenses, are estimated to be not more than approximately HK\$104.05 million (assuming all outstanding Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue).

The Company intends to apply (i) 96% of the net proceeds from the Rights Issue of the maximum amount of approximately HK\$99.96 million (RMB91.50 million) for the general working capital of the Group in the Industrial Park Software Project in which (a) approximately HK\$77.56 million (RMB71 million) will be applied in the procurement of the hardware facilities (including RMB33.40 million for acquiring computer hardware and servers), networking facilities (including RMB2.20 million for leasing broadband), database facilities (including RMB11.70 million for setting up data centre) and application facilities (including RMB23.70 million for purchasing software and setting up application systems) for the use of the customers of the Industrial Park Software Project; (b) approximately HK\$22.40 million (RMB20.50 million) will be applied in the staff cost, sales and marketing for promotion of the services of the Industrial Park Software Project in different industrial parks located in different provinces in the PRC (including but not limited to (1) placing the Company's brand promotional videos and articles; (2) placing billboards of the Company's products and services; and (3) organising large edge computing technology forums to provide updated industry information and gathering of business associates and potential clients and seek for business opportunities, and management and other operating expenses (including (1) management fee such as rent and utilities; (2) tax; (3) equipment testing and evaluation; and (4) other miscellaneous expenses for the use of the Group; and (ii) 4% of the net proceeds of approximately HK\$4.09 million from the Rights Issue will be for the general working capital such as overhead expenses including salary, rental and other expenses of the Company.

(a) *Imminent funding needs*

As stated in the Letter from the Board, in order to further strengthen and expand the business of the Group, the Group has decided to extend its software business from providing software solutions and integrated platform to corporate clients to industrial parks.

The Group has been in touch with a dozen or more industrial parks which may become the potential customers of the Group, of which five which are situated in Fujian Province, the PRC have reached preliminary cooperation intention with the Group in the use of the solutions and integrated platforms in the whole management of those industrial parks. Also, there are another seven potential customers who are in the process of discussion with the Group and have expressed their strong interests to become the customers of the Industrial Park Software Project.

As advised by the Company, in order for the Group to finalise the terms of the contracts with those potential customers, substantial funding is required in place to satisfy the capital requirement for kicking off several Industrial Park Software Project at the same time or within a short period of time, including but not limited to cost of setting up hardware and infrastructure (for example, bandwidth) in those industrial parks in the initial stage. Due to (i) limited internal resources of the Group currently available for financing those projects (as further discussed below) and (ii) payment by customers are expected to be by instalments in accordance with the stage of completion generally, the Group has imminent funding needs from the Rights Issue.

(b) *Financial resources available*

As stated in the 2022 IR, the Group's current assets mainly comprised (i) trade and other receivables of which (a) the date of cash receipt depends on the terms specified in the relevant contracts between the Group and its customers, or (b) the relevant amount could not be easily converted into cash, such as prepayments made to suppliers and deposits paid for purchase of certain facilities and (ii) cash and cash equivalent. As stated in the Letter from the Board, approximately RMB72.35 million out of the cash and cash equivalent of approximately RMB73 million as at 30 June 2022 has been earmarked for specific uses, including procurement of database software, the Beijing Orient Capital Injection and general working capital of the PRC subsidiaries. Hence, less than RMB1 million was available for use as general working capital by the Company's Hong Kong office.

As further stated in the Letter from the Board, net proceeds of approximately HK\$10.95 million was raised from a placing of new Shares under general mandate by the Company completed on 1 September 2022, of which approximately HK\$6.95 million has been allocated for use as general working capital of the Company's Hong Kong office and the balance has been allocated for other use. As at the Latest Practicable Date, approximately HK\$1.90 million has been utilised by the Hong Kong office. The balance of approximately HK\$5.05 million can cover around six months' financing needs of the Hong Kong office only, given monthly operating expenses of approximately RMB0.7 million to be incurred by the Hong Kong office as estimated by the Group.

Taking in consideration of (i) the Group's financial position as at 30 June 2022; (ii) the amount of placing proceeds from placing completed in September 2022 allocated for use as general working capital of the Company's Hong Kong office and other specific use; (iii) the capital requirement for setting up hardware and infrastructure in the industrial parks in the first stage for customers; (iv) the financing needs of the Company's Hong Kong office; and (v) the expected positive prospects of the software business and the Industrial Park Software Project, we concur with the Directors' view that the Group can enhance its financial position through the Rights Issue by applying the net proceeds in the manner as stated above.

(c) Alternative fund-raising methods

As stated in the Letter from the Board, the Directors consider that the Rights Issue will strengthen its capital structure without incurring debt financing cost. Debt financing will result in additional interest burden, higher gearing ratio and repayment obligation of the Group. In addition, debt financing may not be achievable on favourable terms in a timely manner.

The Board has also considered other fund-raising alternatives, including placing of new Shares and open offer. The Directors considered that placing would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company.

Open offer is similar to a rights issue and offers the Qualifying Shareholders an opportunity to participate, but it does not allow free trading of rights entitlements in the open market.

The Rights Issue will allow all the Qualifying Shareholders the equal opportunity to subscribe for their respective pro rata provisional entitlement of the Rights Shares and hence avoids dilution in their shareholding interests in the Company. The Qualifying Shareholders are also able to further increase their interests in the Company through excess applications.

Having considered the feasibility of various fund-raising methods and the pros of the Rights Issue compared to alternative methods as discussed above, we concur with the Directors' view that the Rights Issue is the most suitable fund-raising method to the Group under the current circumstances.

(3) Principal terms of the Rights Issue

(a) Summary of the key terms

Basis of the Rights Issue	:	Three (3) Rights Shares for every two (2) existing Shares in issue and held at the close of business on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	81,631,274 Shares
Number of Rights Shares to be issued	:	Up to 124,896,729 Rights Shares (<i>Note</i>)
Aggregate nominal value of the Rights Shares	:	Up to HK\$12,489,672.90 (<i>Note</i>)
Subscription Price	:	HK\$0.85 per Rights Share
Net price per Rights Share (i.e. Subscription Price less costs and expenses incurred in the Rights Issue)	:	Approximately HK\$0.83 per Rights Share (<i>Note</i>)
Enlarged number of Shares in issue upon completion of the Rights Issue	:	Up to 208,161,215 Shares (<i>Note</i>)
Gross proceeds from the Rights Issue	:	Up to approximately HK\$106,162,220

Right of excess : Qualifying Shareholders may apply for Rights Shares
applications in excess of their provisional allotment

Note:

Assuming all outstanding Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue.

As at the date of the Latest Practicable Date, the Company had an outstanding 1,633,212 Share Options granted to the grantees which entitle the holders thereof to subscribe for an aggregate of 1,633,212 new Shares from 1 December 2020 to 31 August 2030. Save as disclosed above, as at the Latest Practicable Date, the Company had no other outstanding derivatives, options, warrants or securities in issue which confer any rights to subscribe for, convert or exchange into Shares.

(b) The Subscription Price

As stated in the section headed “Subscription Price” in the Letter from the Board, the Subscription Price was determined after arm’s length negotiation between the Company and the Underwriter with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the financial position of the Group; and (iii) the reasons as discussed in the section headed “REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS” in the Letter from the Board.

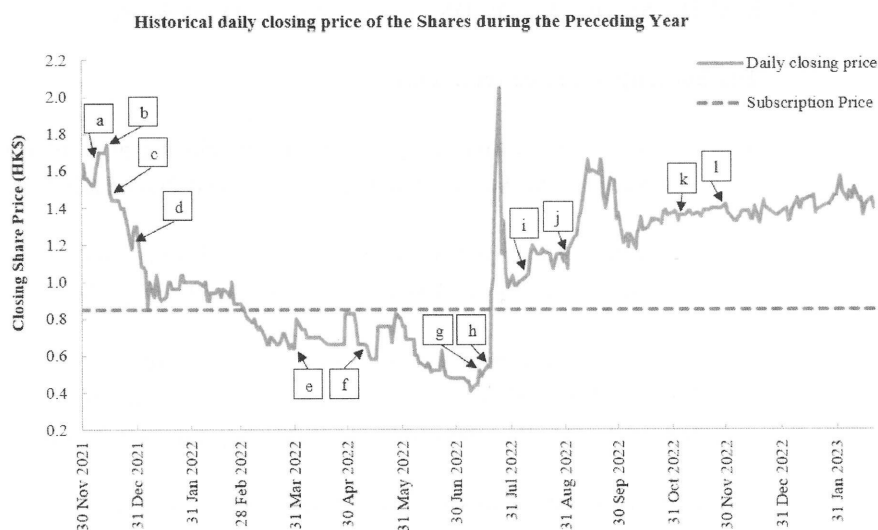
The Subscription Price represents:

- (i) a discount of approximately 39.29% to the closing price of HK\$1.400 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 39.72% to the closing price of HK\$1.410 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 39.37% to the average of the closing price of HK\$1.402 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 38.89% to the average of the closing price of HK\$1.391 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 20.86% to the theoretical ex-rights price of approximately HK\$1.074 per Share based on the closing price of HK\$1.410 per Share as quoted on the Stock Exchange on the Last Trading Day;

- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 23.83%, represented by the theoretical diluted price of approximately HK\$1.074 per Share to the benchmarked price of HK\$1.410 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$1.410 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the Last Trading Day of HK\$1.400 per Share); and
- (vii) a discount of approximately 55.96% to the unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK\$1.93 (based on the latest published unaudited consolidated net asset value attributable to the Shareholders of approximately RMB112,234,000 (equivalent to approximately HK\$131,470,908 based on the exchange rate of RMB1 to HK\$1.1714) and 68,031,274 Shares in issue as at 30 June 2022).

Historical price performance of the Shares

The chart below depicts the daily closing price level of the Share in the preceding year and up to and including the Latest Practicable Date (the “**Preceding Year**”), and the comparison of the Share price performance with the Subscription Price:



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note:

Announcement of

- a- (9 Dec 2021) appointment of Director
- b- (14 Dec 2021) capital reorganisation
- c- (16 Dec 2021) change of auditors
- d- (29 Dec 2021) issue of subscription share under general mandate completed
- e- (31 Mar 2022) FY2021 results
- f- (10 May 2022) CSRC's disciplinary action
- g- (13 Jul 2022) placing of new shares under general mandate (lapsed on 1 August 2022)
- h- (18 Jul 2022) Stock Exchange's disciplinary action
- i- (10 Aug 2022) placing of new shares at HK\$0.84 per placing share under general mandate
- j- (31 Aug 2022) 1H2022 results
- k- (4 Nov 2022) capital increase in a subsidiary
- l- (29 Nov 2022) Rights Issue

We consider the length of the Preceding Year to be reasonably long enough to illustrate the historical trend and level of movement of the closing prices of the Shares.

There was a downward trend of the daily closing price per Share from December 2021 to early July 2022. During such period, other than the announcements of purchase of listed securities which were conducted in the ordinary and usual course of business of the Group, the Company have announced the appointment of a new independent non-executive Director, capital reorganisation, change of auditors, completion of issue of subscription shares under general mandate, placing of new shares under general mandate, financial results for FY2021 and disciplinary action.

After reaching the lowest point of HK\$0.41 on 8 July 2022, the closing price of the Shares went upward and surged to HK\$2.05 on 25 July 2022, and then moved between HK\$0.97 (recorded on 29 July 2022) and HK\$1.66 (recorded on 13 and 20 September 2022) up to and including the Latest Practicable Date. As confirmed by the Directors, other than the announcements such as placing of new shares under general mandate, financial results for 1H2022 and the Rights Issue as stated in the chart above, they are not aware of the reasons leading to the aforesaid price movement.

The Subscription Price represents a discount of approximately 21.95% to the average closing price of HK\$1.089 per Share for the Preceding Year. Taking into account (i) it is considered reasonable and a common practice among the other rights issues transactions as shown below to set the subscription price at a substantial discount to closing price in order to attract qualifying shareholders to take part in the rights issue, especially when the trading price of the Shares closed at below the Subscription Price in one-third of the period during the Preceding Year as shown in the price movement chart of the Shares above; (ii) the fair and reasonable view based on analysis of the discount of the Subscription Price to the LTD Price, ATD Price and Ex-rights Price as compared with the Comparables as shown in the paragraphs headed “Comparison with other rights issues” below; and (iii) the Rights Issue is crucial to the Group in order to raise fund to seize the opportunity of the Industrial Park Software Projects as discussed above, we concur with the Company’s view that the aforesaid discount of approximately 21.95% is fair and reasonable.

Comparison with other rights issues

To further assess the fairness and reasonableness of the Subscription Price, we have identified an exhaustive list of 55 rights issues transactions (the “**Comparables**”) announced by other companies listed on the Stock Exchange (except those terminated or lapsed) for the 12-month period immediately prior to the Last Trading Day (the “**Review Period**”). Shareholders should note that the Comparables may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to those of the Company. Nevertheless, we consider that they can provide a reasonable reference to how the market generally perceive rights issues. We also consider that the Review Period is adequate and fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting rights issue.

It should be noted that, in forming our opinion, we have taken into account the results of the below analysis together with all other factors stated in this letter as a whole. The table below provides a summary of our findings:

Date of initial announcement	Company name	Stock code	Basis of entitlement	Premium/(Discount) of subscription price per rights issue share over/ to closing price per share on the last trading day prior to announcement of rights issue ("LTD Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to average closing price per share for the five consecutive trading days prior to announcement of rights issue ("ATD Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to theoretical ex-rights price per share based on LTD Price ("Ex-rights Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to the latest published consolidated net asset value attributable to the shareholders per share ("NAV per share") (Note 1) (%)	Theoretical dilution effect (Note 2) (%)	Underwriting commission (%)	Excess application (Yes/No)	Placing commission (%)
28 Nov 2022	CCIAM Future Energy Limited	145	1 for 2	(21.88)	(23.31)	(15.97)	42.86	(7.65)	2.5	Yes	N/A
14 Nov 2022	Comel Technology Company Limited	1912	2 for 5	(23.2)	(25.0)	(18.2)	(80.9)	(7.1)	N/A	No	3.5
10 Nov 2022	Lai Sun Garment (International) Limited ("LSG")	191	1 for 2	(50.0)	(50.8)	(40.8)	(95.2)	(17.1)	2	No	–
10 Nov 2022	Lai Sun Development Company Limited ("LSDP")	488	1 for 2	(50.2)	(51.9)	(42.1)	(95.2)	(17.4)	2	No	(Note 15)
21 Oct 2022	C&N Holdings Limited	8430	3 for 1	(13.3)	(13.3)	(3.7)	(90.0)	(10.0)	N/A	No	(Note 15)
21 Oct 2022	E. Bon Holdings Limited	599	1 for 4	(20.00)	(20.99)	(16.52)	(75.48)	(4.47)	2.5	Yes	1.5
20 Oct 2022	Crocodile Garments Limited	122	1 for 2	(66.1)	(66.4)	(56.5)	(93.7)	(22.8)	N/A	Yes	N/A
18 Oct 2022	Cherish Sunshine International Limited ("Cherish Sunshine")	1094	5 for 8	(13.70)	(17.11)	(8.96)	8.62	(6.69)	–	No	1.0
18 Oct 2022	China Zenith Chemical Group Limited	362	5 for 2	(28.57)	(25.93)	(9.10)	N/A	(21.43)	1	Yes	(Note 16)
13 Oct 2022	Great Wall Terror Holdings Limited	524	1 for 4	(6.3)	(15.7)	(5.1)	12.50	(3.27)	N/A	Yes	N/A
11 Oct 2022	AMCO United Holding Limited	630	1 for 1	(16.7)	(16.7)	(9.1)	(57.9)	(8.33)	N/A	No	2.5
26 Sep 2022	Endurance RP Limited ("Endurance")	575	1 for 1	(21.50)	(25.24)	(11.80)	30.83	(13.89)	1	No	2
23 Sep 2022	Tasty Concepts Holding Limited	8096	5 for 2	(14.3)	(14.3)	(4.5)	100.00	(10.3)	(Note 10)	No	(Note 17)
13 Sep 2022	China International Capital Corporation Limited	3908	Up to 3 for 10	(17.9)	(20.0)	(14.3)	(45.12)	(4.6)	N/A	Yes	2.5
10 Aug 2022	Easy Repay Finance & Investment Limited	8079	1 for 2	(44.95)	(47.83)	(35.14)	(85.82)	(16.09)	N/A	No	7.07
5 Aug 2022	Jia Yao Holdings Limited	1606	1 for 1	(14.29)	(12.02)	(7.69)	(4.76)	(7.14)	5	Yes	N/A
4 Aug 2022	Xinyi Electric Storage Holdings Limited	8328	1 for 10	(18.82)	(8.03)	(17.41)	425.71	(1.71)	N/A	Yes	N/A
3 Aug 2022	SJM Holdings Limited	880	1 for 4	(33.8)	(34.8)	(29.0)	(34.80)	(7.1)	2.0	Yes	N/A
3 Aug 2022	Kwan On Holdings Limited ("Kwan On")	1559	1 for 4	–	(0.40)	–	(44.44)	(0.13)	N/A	Yes	N/A
28 Jul 2022	China Financial Leasing Group Limited	2312	2 for 1	(29.1)	(29.2)	(12.1)	(33.7)	(19.6)	1.0	Yes	N/A
14 Jul 2022	Wan Cheng Metal Packaging Company Limited	8291	1 for 1	(25.0)	(31.2)	(14.3)	11.9	(16.5)	N/A	No	2.5

Date of initial announcement	Company name	Stock code	Basis of entitlement	Premium/(Discount) of subscription price per rights issue share over/ to the last trading day prior to announcement of rights issue ("LTD Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to the five consecutive trading days prior to announcement of rights issue ("ATD Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to the theoretical ex-rights price per share based on LTD Price ("Ex-rights Price") (%)	Premium/(Discount) of subscription price per rights issue latest published consolidated net asset value attributable to the shareholders per share ("NAV per share") (Note 1) (%)	Theoretical dilution effect (Note 2) (%)	Underwriting commission (%)	Excess application (Yes/No)	Placing commission (%)
12 Jul 2022	Besunyen Holdings Company Limited ("Besunyen")	926	2 for 1	(14.22)	(15.87)	(5.41)	(92.58)	(10.58)	1.0	Yes	N/A
17 Jun 2022	Ocean Star Technology Group Limited	8297	1 for 2	(41.2)	(41.9)	(32.0)	900.0	(13.9)	1.0	Yes	N/A
13 Jun 2022	China Water Industry Group Limited	1129	1 for 2	(31.37)	(30.00)	(23.25)	(79.65)	(10.46)	N/A	Yes	N/A
10 Jun 2022	Gameone Holdings Limited	8282	1 for 2	(40.4)	(40.3)	(31.2)	29.3	(13.5)	1.5	Yes	N/A
25 May 2022	FR Enterprises (Holdings) Group Limited	8347	1 for 2	(5.56)	(2.86)	(3.68)	(64.1)	(1.94)	5	Yes	N/A
24 May 2022	Progressive Path Group Holdings Limited	1581	1 for 1	(42.22)	(39.95)	(26.76)	(73.47)	(21.11)	N/A	No	1.5
18 May 2022	K Group Holdings Limited	8475	2 for 1	(28.8)	(30.5)	(12.3)	N/A	(20.4)	3.0	Yes	N/A
12 May 2022	KOALA Financial Group Limited	8226	2 for 1	(4.76)	(7.12)	(1.64)	(88.19)	(4.7)	3	Yes	N/A
29 Apr 2022	China CITIC Bank Corporation Limited	998	3 for 10	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
28 Apr 2022	Palinda Group Holdings Limited	8179	1 for 2	(39.76)	(39.61)	(13.25)	(80.77)	(13.25)	7.07	Yes	N/A
28 Apr 2022	Life Concepts Holdings Limited	8056	3 for 2	(6.98)	(13.04)	(2.91)	N/A	(9.28)	1.0	Yes	N/A
21 Apr 2022	Vitel Technologies Holdings Limited	1782	1 for 2	(54.5)	(39.2)	(26.0)	25.4	(13.6)	1.5	Yes	N/A
18 Apr 2022	英孚麗芬證券有限公司("DFZQ")	3958	2.8 for 10	113.58	115.71	24.90	(7.49)	-	N/A	Yes	N/A
12 Apr 2022	CA Cultural Technology Group Limited	1566	1 for 2	(42.11)	(29.90)	(32.50)	(87.98)	(14.0)	7.07	Yes	N/A
23 Mar 2022	Kiu Hing International Holdings Limited	381	3 for 1	(18.00)	(17.00)	(5.09)	(65.08)	(13.5)	N/A	No	0.5
15 Mar 2022	Success Dragon International Holdings Limited ("Success Dragon")	1182	3 for 2	(2.86)	(4.49)	(1.16)	(8.60)	(2.77)	1	No	1
3 Mar 2022	China Eco-Farming Limited	8166	1 for 2	(10.11)	(12.57)	(6.98)	(83.51)	(5.26)	2	Yes	N/A
2 Mar 2022	Feiyang International Holdings Group Limited	1901	1 for 3	(56.52)	(55.75)	(49.49)	614.29	(13.91)	2.5	Yes	N/A
28 Feb 2022	Zioncom Holdings Limited	8287	1 for 2	(16.7)	(14.2)	(11.8)	(66.67)	(5.6)	N/A	No	2.5
14 Feb 2022	Gold Peak Industries (Holdings) Limited ("Gold Peak")	40	1 for 6	(21.52)	(20.92)	(19.06)	(71.30)	(3.04)	4.6	Yes	N/A
28 Jan 2022	Affluent Partners Holdings Limited	1466	1 for 1	(4.35)	(6.30)	(2.22)	(4.35)	(3.15)	2.5	Yes	N/A
21 Jan 2022	Connestone Financial Holdings Limited	8112	3 for 1	(11.63)	(17.39)	(3.18)	(86.52)	(14.62)	3.5	Yes	N/A
19 Jan 2022	RMH Holdings Limited ("RMH")	8437	1 for 2	(29.58)	(30.56)	(21.88)	66.67	(9.86)	2.5	Yes	N/A
14 Jan 2022	Beaver Group (Holding) Company Limited	8275	3 for 2	(24.14)	(23.08)	(11.29)	(54.92)	(14.48)	N/A	No	3.5
14 Jan 2022	CITIC Securities Company Limited	6030	1.5 for 10	(15.0)	(13.0)	(13.3)	1.44	(2.0)	N/A	Yes	N/A

Date of initial announcement	Company name	Stock code	Basis of entitlement	Premium/(Discount) of subscription price per rights issue share over/ to closing price per share on the last trading day prior to announcement of rights issue ("LTD Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to average closing price per share for the five consecutive trading days prior to announcement of rights issue ("ATD Price") (%)	Premium/(Discount) of subscription price per rights issue share over/ to latest published consolidated net asset value attributable to the shareholders per share ("NAV per share") (Note 1) (%)	Theoretical dilution effect (Note 2) (%)	Underwriting commission (%)	Excess application (Yes/No)	Placing commission (%)
10 Jan 2022	Wisdom Wealth Resources Investment Holding Group Limited	7	1 for 2	-	(7.7)	(90.0)	(3.6)	N/A	Yes	N/A
7 Jan 2022	China New Economy Fund Limited	80	1 for 2	(28.0)	(30.8)	38.5	(10.4)	N/A	No	3.5
6 Jan 2022	Youth Champ Financial Group Holdings Limited	1160	1 for 2	(60)	(60)	N/A	(20)	3.5	No	3.5
5 Jan 2022	China Information Technology Development Limited	8178	1 for 2	(34.78)	(34.78)	(90.26)	(11.74)	N/A	Yes	1.5
29 Dec 2021	Bank of Qingdao Co., Ltd. ("Bank of Qingdao")	3866	3 for 10	(11.5)	(13.1)	(53.50)	(3.1)	5.5	Yes	N/A
24 Dec 2021	Harvey Group Holdings Limited	8219	1 for 2	(22.81)	(22.81)	(45.00)	(7.60)	(Note 13)	No	3.5
20 Dec 2021	KXT Holdings Limited ("KXT")	1025	1 for 2	(15.38)	(14.33)	205.56	(5.13)	N/A	No	2.50
15 Dec 2021	Future World Holdings Limited ("Future World")	572	3 for 2	(33.82)	(34.02)	(95.08)	(23.23)	5	No	(Note 19) 3.5
2 Dec 2021	Seazen Group Limited	1030	1 for 2	(5.86)	(11.19)	(24.61)	(0.51)	(Note 14)	Yes	N/A
			Maximum	-	(0.4)	100.00	0.00	7.07		7.07
			Minimum	(66.1)	(66.4)	(95.2)	(23.2)	0		0
			Average	(24.23)	(24.99)	(40.93)	(10.06)	2.76		2.36
			Median	(21.52)	(22.81)	(56.41)	(9.93)	2.50		2.50
29 Nov 2022	The Company	1808	3 for 2	(39.72)	(39.37)	(55.96)	(23.83)	1	Yes	N/A

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Being the premium/(discount) of the subscription price over/to the NAV per share, which is calculated by the net asset value attributable to the shareholders of the Comparables divided by the number of issued shares, as disclosed in the relevant latest published announcements, circulars, prospectuses and/or annual/interim reports.
2. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the Rules Governing the Listing of Securities on GEM, or extracted from announcement, circular or prospectus in respect of the relevant right issue.
3. It is calculated based on the indicative minimum rights issue price of approximately HK\$9.89 (equivalent to approximately RMB8.91), for illustrative purpose only. The final rights issue price is subject to, among others, the market conditions before the issuance.
4. DFZQ was considered as outlier as it is the only Comparable of which the subscription price per right issue share represented a premium over the LTD Price and the ATD Price of DFZQ of over 100% compared to a discount to nil to over 60% of all the other Comparables, and therefore were excluded for comparison and analysis purpose.
5. According to the clarification announcement issued by Kwan On (1559) on 11 August 2022, the subscription price was equal to the theoretical ex-rights price of HK\$0.15 based on the LTD Price.
6. These companies had consolidated net deficits per share and therefore were excluded for comparison and analysis purpose.
7. These extraordinary high figures of 200% to 900% premium, compared to that of the other Comparables which ranged from a premium of approximately 100% to a discount of approximately 95%, were considered as outliers and were excluded in the analysis of subscription price to net asset value per share.
8. According to the clarification announcement issued by RMH (8437) on 20 January 2022, the theoretical dilution effect should be 9.86%.
9. LSG (191) and LSD (488) shall pay (i) the underwriter 2% of the aggregate subscription price in respect of the number of underwritten shares committed to be underwritten, subscribed for or procured to be subscribed for; and (ii) additional commission at the rate of 7% of the aggregate subscription price in respect of the number of untaken shares to be subscribed or procure to be subscribed by the underwriter in accordance with the provision in the underwriting agreement.
10. Endurance (575) shall pay the underwriter approximately HK\$1.23 million (or approximately US\$0.16 million), being 1% of the aggregate subscription amount in respect of the maximum number of underwritten shares committed to be underwritten, subscribed for or procured subscription for by the underwriter.
11. Besunyen (926) shall pay the underwriter the higher of (i)HK\$150,000; and (ii) 1% of the aggregate subscription price in respect of the underwritten shares.

12. The underwriting commission is calculated based on the underwriting fee of HK\$2 million paid by Gold Peak (40) divided by 70,349,310 rights shares underwritten and subscription price per rights share of HK\$0.62.
13. The underwriting commission is calculated based on the underwriting fee of approximately HK\$18 million paid by Bank of Qingdao (3866) divided by 83,845,542 H rights shares underwritten and subscription price per H rights share of HK\$3.92.
14. Future World (572) shall pay the underwriter the higher of (i) HK\$1,350,000; and (ii) 5% of the aggregate subscription price in respect of the underwritten shares.
15. LSG (191) and LSD (488) shall pay the placing agent all costs and expenses reasonably incurred in connection with or arising out of the placing. The placing commission is not disclosed in the relevant announcement/circular of this comparable.
16. Cherish Sunshine (1094) shall pay the placing agent the sum of (a) the higher of a fee of HK\$100,000 and 0.5% of the portion of the placing amount that is equal to or less than HK\$20,000,000; and (b) if the total placing amount is over HK\$20,000,000, a fee of 1.5% of the portion of the placing amount that exceeds HK\$20,000,000. An average placing commission of 1% is assumed for illustrative purpose.
17. Endurance (575) shall pay the placing agent the higher of (i) HK\$150,000 (or approximately US\$19,000) and (ii) 2% of the gross proceeds from the successful placement of unsubscribed rights shares.
18. Success Dragon (1182) shall pay the placing agent the sum of (i) a fixed fee of HK\$100,000 and (ii) 1% of the gross proceeds from the successful placement of unsubscribed rights shares.
19. According to the announcement issued by KNT (1025) on 14 January 2022, KNT entered into a new placing agreement with placing agent on substantially the same terms (including placing commission) as those of the previous placing agreement.

According to our research, we observed that 53 out of the 54 Comparables had set the subscription price of their rights issue at a discount to (i) the LTD Price; (ii) the ATD Price; and/or (iii) the Ex-rights Price. It indicates that it is common for listed companies to set such discounts with the view to encourage participation.

The discount of the subscription price to the LTD Price of the Comparables ranged from a discount of nil to approximately 66.1% with average and median discounts of approximately 24.23% and 21.52% respectively. The discount of approximately 39.72% of the Subscription Price to the LTD Price of the Company falls within the range of those of the Comparables.

The discount of the subscription price to the ATD Price of the Comparables ranged from a discount of approximately 0.4% to 66.4% with average and median discounts of approximately 24.99% and 22.81% respectively. The discount of approximately 39.37% of the Subscription Price to the ATD Price of the Company falls within the range of those of the Comparables.

The discount of the subscription prices to the Ex-rights Price of the Comparables ranged from a discount of nil to approximately 56.5% with average and median discounts of approximately 16.73% and 13.25% respectively. The discount of approximately 20.86% of the Subscription Price to the Ex-rights Price of the Company falls within the range of those of the Comparables.

The discount of the subscription prices to the NAV per share of the Comparables ranged from a premium of approximately 100.0% to a discount of approximately 95.2% with average and median discounts of approximately 40.93% and 56.41% respectively. The discount of approximately 55.96% of the Subscription Price to the unaudited consolidated net asset value attributable to the Shareholders per Share falls within the range of those of the Comparables.

Furthermore, the theoretical dilution effect of the rights issue conducted by the Comparables ranged from 0 to 23.2% with average and median of approximately 10.06% and 9.93% respectively. The theoretical dilution effect of the Rights Issue of approximately 23.83% is close to the high-end of the range of the Comparables.

Taking into account that (i) the Subscription Price falls below the daily closing price per Share in the Preceding Year, except for the period from 3 March 2022 to 19 July 2022; (ii) loss was recorded by the Group for FY2021 and 1H2022; (iii) as shown in the table of Comparables above, it is common for listed companies in Hong Kong to set the subscription price of a rights issue at a discount to the LTD Price, the ATD Price and the Ex-rights Price with the view to enhance the attractiveness of a rights issue and to encourage the qualifying shareholders to take part in the rights issue; (iv) the discounts of the Subscription Price to the LTD Price, the ATD Price, the Ex-rights Price and the NAV per share of the Company fall within discount ranges of the Comparables; and (v) the Rights Issue is crucial to the Group to raise fund to seize the opportunity of the Industrial Park Software Projects as advised by the Company, we consider the Subscription Price is fair and reasonable notwithstanding that the theoretical dilution effect of the Rights Issue is slightly higher than the high-end of the range of the Comparables.

(c) Excess application

Among the Comparables, we noted that 35 out of the 55 Comparables had excess application arrangements in their rights issue. As such, we consider that it is acceptable for rights issue to have excess application arrangements.

(d) Underwriting Agreement

As stated in the Letter from the Board, the Rights Issue is only underwritten on a best effort basis. On 29 November 2022 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement in relation to the underwriting and respective arrangements in respect of the Rights Issue.

According to the Underwriting Agreement, the Company will pay the Underwriter an underwriting commission (the “**Underwriting Commission**”) of 1% of the aggregate Subscription Price in respect of such number of the Rights Shares actually procured by the Underwriter for subscription.

As set out in the table under paragraph headed “Comparison with other rights issues” above, the underwriting commission paid to the underwriter ranged from nil to 7.07% with average and median of approximately 2.76% and 2.50% respectively. The Underwriting Commission falls within the range of those of the Comparables.

Taking into consideration (i) the Subscription Price is fair and reasonable; (ii) the underwriting offers an additional means to facilitate the subscription of the Untaken Shares to the maximum extent given the funding needs of the Company and its difficulties in conducting alternative fund-raising methods as discussed in the paragraphs headed “Reasons for the Rights Issue” above; and (iii) the Underwriting Commission as compared with the Comparables is fair and reasonable, we concur with the Directors’ view that the terms of the Rights Issue and the Underwriting Agreement are fair and reasonable.

(4) Financial impacts of the Rights Issue

Set out below is the analysis of the financial impacts of the Rights Issue as estimated by the Company. The analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will become upon completion of the Rights Issue.

(a) Liquidity

As stated in the 2022 IR, the cash and cash equivalent of the Group amounted to approximately RMB73.2 million as at 30 June 2022. Since the net proceeds from the Rights Issue will be applied as working capital of the Group in the Industrial Park Software Project and daily operation, it is expected that the Group’s liquidity position would be improved as a result of the Rights Issue.

(b) Net tangible assets

As stated in the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, as if the Rights Issue had taken place on 30 June 2022, the net tangible assets of the Group attributable to the Shareholders as at 30 June 2022 would increase from approximately RMB110.7 million to RMB200.9 million. The unaudited pro forma consolidated net tangible asset value per Share attributable to the Shareholders as at 30 June 2022 would decrease to RMB1.055 from RMB1.628 as the Subscription Price represented a discount to the net asset value per Share as at 30 June 2022.

(c) Gearing ratio

As stated in the 2021 AR and 2022 IR, the Group calculated its net gearing ratio by the balance of total borrowings less cash, time deposits and pledged deposits divided by total equity multiplied by 100%. Such ratio as at 30 June 2022 were not applicable since the Group had cash in excess of interest bearing borrowings.

The Group's gearing ratio, if calculated by the amount of total interest-bearing liabilities divided by total equity multiplied by 100%, would be approximately 8.2% as at 30 June 2022. Since the net proceeds are intended to be applied as working capital of the Group, it is expected that the gearing ratio of the Group will be improved as a result of the Rights Issue.

(5) Possible dilution effect

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

Qualifying Shareholders who do not accept the Rights Issue or do not take up their full provisional allotments under the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights in the market. However, they should note that their shareholdings in the Company will be diluted, depending on the extent to which they subscribe for the Rights Shares, upon completion of the Rights Issue.

The table below illustrates the respective shareholding structure of the Company as at the Latest Practicable Date to immediately after completion of the Rights Issue assuming (i) no exercise of the outstanding Share Options on or before the Record Date; and (ii) exercise of all the outstanding Share Options in full on or before the Record Date:

(i) assuming no exercise of the outstanding Share Options on or before the Record Date

	Immediately after the Rights Issue					
	As at the Latest Practicable Date		Assuming full acceptance by all Qualifying Shareholders and there is no Excluded Shareholder		Assuming (a) no acceptance by the Qualifying Shareholders; and (b) all the Untaken Shares are taken up by the Underwriter and its subscribers procured by it	
	Shares	%	Shares	%	Shares	%
Substantial Shareholders						
Hong Tai International II LPF	10,192,714	12.49	25,481,785	12.49	10,192,714	4.99
De Gennes Limited (Note 1)	<u>9,637,765</u>	<u>11.81</u>	<u>24,094,412</u>	<u>11.81</u>	<u>9,637,765</u>	<u>4.72</u>
Sub-total	19,830,479	24.30	49,576,197	24.30	19,830,479	9.71
Public Shareholders						
The Underwriter and/or its subscriber(s) procured by it	-	-	-	-	122,446,911	60.00
Other public Shareholders	<u>61,800,795</u>	<u>75.70</u>	<u>154,501,988</u>	<u>75.70</u>	<u>61,800,795</u>	<u>30.29</u>
Sub-total	<u>61,800,795</u>	<u>75.70</u>	<u>154,501,988</u>	<u>75.70</u>	<u>184,247,706</u>	<u>90.29</u>
Total	<u>81,631,274</u>	<u>100.00</u>	<u>204,078,185</u>	<u>100.00</u>	<u>204,078,185</u>	<u>100.00</u>

(ii) **assuming exercise of all the outstanding Share Options in full on or before the Record Date**

	As at the Latest Practicable Date		Immediately after the Rights Issue			
			Assuming full acceptance by all Qualifying Shareholders and there is no Excluded Shareholder		Assuming (a) no acceptance by the Qualifying Shareholders; and (b) all the Untaken Shares are taken up by the Underwriter and its subscribers procured by the it	
			Shares	%	Shares	%
Substantial Shareholders						
Hong Tai International II LPP	10,192,714	12.49	25,481,785	12.24	10,192,714	4.90
De Gennes Limited (Note 1)	<u>9,637,765</u>	<u>11.81</u>	<u>24,094,412</u>	<u>11.57</u>	<u>9,637,765</u>	<u>4.63</u>
Sub-total	19,830,479	24.30	49,576,197	23.81	19,830,479	9.53
Director						
Ms. Li Zhuoyang ("Ms. Li") (Note 2)	<u>-</u>	<u>-</u>	<u>810,175</u>	<u>0.39</u>	<u>324,070</u>	<u>0.16</u>
Sub-total	-	-	810,175	0.39	324,070	0.16
Public Shareholders						
Option Holders except Ms. Li	-	-	3,272,855	1.57	1,309,142	0.63
The Underwriter and/or its subscriber(s) procured by it	-	-	-	-	124,896,729	60.00
Other public Shareholders	<u>61,800,795</u>	<u>75.70</u>	<u>154,501,988</u>	<u>74.23</u>	<u>61,800,795</u>	<u>29.68</u>
Sub-total	<u>61,800,795</u>	<u>75.70</u>	<u>157,774,843</u>	<u>75.80</u>	<u>188,006,666</u>	<u>90.31</u>
Total	<u>81,631,274</u>	<u>100.00</u>	<u>208,161,215</u>	<u>100.00</u>	<u>208,161,215</u>	<u>100.00</u>

Notes:

- De Gennes Limited is wholly-owned by Mr. Wu Xiaodong. Therefore, Mr. Wu Xiaodong is deemed to be interested in the number of Shares held by De Gennes Limited by virtue of the SFO.
- Ms. Li, who is the executive Director, beneficially owns 324,070 Share Options.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and their shareholding interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) all Qualifying Shareholders have the opportunity to realise their nil-paid rights in the market; and (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group, we concur with the Directors' view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro rata Rights Shares, is acceptable and justifiable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Rights Issue (including the Underwriting Agreement) is in the interests of the Company and the Shareholders as a whole and the terms of it are on normal commercial terms and fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour on the relevant resolutions at the EGM in relation to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Capital 9 Limited



Chu Tat Hoi
Managing Director



Chan Man Yee
Director

Chu Tat Hoi and Chan Man Yee are licensed persons and responsible officers of Capital 9 Limited registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and have over 20 years and 15 years of experience in the corporate finance industry.